

DOCUMENT RESUME

ED 199 400

CE 028 118

AUTHOR Besse, A:t
 TITLE In Defense of PSE: An Opportunity Missed.
 INSTITUTION Wisconsin Univ., Milwaukee, Employment & Training Inst.
 PUB DATE [80]
 NOTE 27p.
 AVAILABLE FROM Employment and Training Institute, University of Wisconsin, P.O. Box 413, Milwaukee, WI 53201 (\$3.50).
 EDRS PRICE MF01/PC02 Plus Postage.
 DESCRIPTORS Employment Programs; *Federal Programs; Financial Policy; *financial Support; Policy Formation; *Program Effectiveness; *Public Policy; *Public Service Occupations; Resource Allocation; Tax Allocation
 IDENTIFIERS Comprehensive Employment and Training Act; *Public Employment Programs; Recession

ABSTRACT

This study argues for the use of public service employment (PSE) as a portion of an anti-recessionary fiscal policy package to include public works and tax cuts. Keynesian economics, deficit spending in this case, serves as the study's underpinnings. Chapter 1 reviews public service employment's current low status as an anti-recessionary measure. Selected positive and negative comments on the efficacy of PSE are included. In the second chapter, the key arguments for and against intervention in a recession are analyzed. Comparison of deficit spending to personal finances and a view of the economy as self-equalizing are dismissed. In the third chapter, public works, tax cuts, and public service employment are reviewed for their attributes and drawbacks as part of an economic recovery program. Since tax cuts are widely accepted and public works has fairly broad support, little time is spent in developing justification for their use. The public service employment section includes more detail, which is intended to outline PSE's advantages and its drawbacks: significantly more jobs are created per \$1 billion of public service expenditure than for either tax cuts or public works. The final chapter, while emphasizing the attractiveness of PSE as part of an anti-recessionary response, stresses that no single program is a panacea to the economic dislocation of a recession. A policy package using various mixes of the fiscal programs known to be effective when used in combination is needed to combat recession.
 (KC)

 * Reproductions supplied by EDRS are the best that can be made *
 * from the original document. *

IN DEFENSE OF PSE:

AN OPPORTUNITY MISSED

"PERMISSION TO REPRODUCE THIS
MATERIAL HAS BEEN GRANTED BY

Philip E. Lerman

TO THE EDUCATIONAL RESOURCES
INFORMATION CENTER (ERIC)."

U S DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
EDUCATION

THIS DOCUMENT HAS BEEN REPRO-
DUCED EXACTLY AS RECEIVED FROM
THE PERSON OR ORGANIZATION ORIGIN-
ATING IT. POINTS OF VIEW OR OPINIONS
STATED DO NOT NECESSARILY REPRESENT
OFFICIAL NATIONAL INSTITUTE OF
EDUCATION POSITION OR POLICY

Art Besse is Public Service
Employment Manager for Balance
of State, Wisconsin, a position
he has held since 1972 when
PSE was funded under the
Emergency Employment Act. He
has been an employment and
training practitioner since
1967. He prepared this paper
for the University of Wisconsin
Employment and Training Institute.

Table of Contents

	PAGE
Executive Summary	3
Chapter I - Introduction	4
Chapter II - Non-intervention vs. Deficit Spending	6
Chapter III - Fiscal Policies	8
Section A - Tax Cuts	8
Section B - Public Works	9
Section C - Public Service Employment	11
Chapter IV - Conclusion - Need for a Policy Package	17
Notes	19
Appendix	
1-Estimates of Employment and Budget Impact of Various Programs Costing \$1 Billion	20
2-Alternatives Estimates of Total Employment Generated by Selected Countercyclical Programs	21
3-Summary of the Potential Impacts of Alternative Measures to Stimulate Employment	22
4-Lag in Job Creation from Date of Recessionary Downturn	23

Executive Summary

This study makes a strong argument for the use of PSE as a portion of an anti-recessionary fiscal policy package to include public works and tax cuts. Keynesian economics, deficit spending in this case, serves as the study's underpinnings.

Chapter I reviews public service employment's current low status as an antirecessionary measure. Selected positive and negative comments on the efficacy of PSE are included. By no means does PSE lack adherents.

In the second chapter the key arguments for and against intervention in a recession are analyzed. Comparison of deficit spending to personal finances and a view of the economy as self equalizing are dismissed. This sets the stage for chapter three, Fiscal Policy.

Public works, tax cuts, and public service employment are reviewed for their attributes and drawbacks as part of an economic recovery program. Since tax cuts are widely accepted and public works has fairly broad support, little time is spent in developing justification for their use. The public service employment section includes more detail, which is intended to clearly outline PSE's advantages and put an honest face on its drawbacks. Significantly more jobs are created per 1 billion dollars of public service expenditure than for either tax cuts or public works. CETA is highly targeted. Through 1978, 35% of CETA PSE participants were former AFDC or UC recipients. This targeting also reduces the inflationary impact. Finally, PSE is by far the quickest federal response available to attack excess unemployment.

The final chapter, while emphasizing the attractiveness of PSE as part of an antirecessionary response, makes it clear that no single program is a panacea to the economic dislocations of a recession. What is required is a policy package using various mixes of the fiscal programs known to be effective when used in combination.

I. Introduction

PSE is "still the most cost effective and least inflationary way for government to create jobs."

-- Jodie T. Allen, Deputy Assistant Labor Secretary during the Carter Administration.

Presidents Carter, Ford, and Nixon when faced with recession all had in common a reliance on public service employment as part of a multi-faceted policy for economic recovery. Public service employment proved an effective tool in rapidly absorbing excess unemployment of the economically disadvantaged.

Public service employment (PSE) has subsequently fallen into disfavor as a response to rising unemployment. During the current recession neither the Carter Administration nor the Congressional majority are seriously considering PSE as a tool for economic recovery. The Republican platform also does not envision the use of public service employment. PSE has come under attack from economists, the business community, the media, and the general public.

A recent article in "Time"¹ referred to the "crushing costs of job programs". "Business Week"² views the jobs program as proposed by Senator Edward M. Kennedy and included in the Democratic platform as "solemn nonsense" and refers to existing programs under CETA as "costly failures".

PSE is "a politically useful but horribly inefficient way to try to buy quiet cities and calm social unrest"³ according to Kim B. Clark of the Harvard Business School. Michael L. Wachter,⁴ University of Pennsylvania, says of job programs, "it's a very clumsy way to distribute income." "CETA is a Band-Aid",⁵ said Frank Cassell, professor of industrial management at Northern University business school. "It's leading nowhere."

Criticism follows a number of key themes. Direct job creation is derogatorily referred to as a quick-fix as opposed to tax cuts which are viewed as long-range solutions for structural unemployment. Efforts to further private sector interests have become sacrosanct while public sector expansion has become anathema.

Real issues exist in addition to the preceding largely emotional ones. Public service employment suffers lag problems as do other fiscal responses which lack automatic triggers, for instance public works and tax cuts. PSE has also been estimated to involve fiscal substitution at

rates from 15% to 100%. Substitution is the replacement by federally funded positions of positions that would have been supported by local funds. The substitution issue is discussed at some length in the Public Service Employment Section.

Use of public jobs in an economic renewal program is not, however, without its adherents or its advantages. Adherents include economists; federal, state and local elected officials; associations representing the interests of the poor; as well as those several hundred thousand persons in PSE jobs.

An independent, nonpartisan advisory panel of experts to the Department of Labor on employment, the National Council on Employment Policy,⁶ has recently issued a statement on the economy calling for "substantially increased funding" for CERA public service employment. Jodie T. Allen,⁷ a Deputy Assistant Labor Secretary, contends that PSE is "still the most cost effective and least inflationary way for government to create jobs." George Washington University's director of the Center for Social Policy Study and employment and training expert Sar Levitan⁸ has reiterated the need for PSE as a response to the recession. Finally, the delegates to the Democratic Convention established a platform plank calling for a \$12 billion jobs program.

This concept paper will argue that intervention to end the recession is required. Further that no single response to the recession offers wide enough advantages to justify its exclusive use. Public service employment should be a key component in any policy mix designed to foster economic recovery.

PSE's exclusion during high unemployment means that the economically disadvantaged become the front line troops in fighting the instability caused by inflation and recession. The disadvantaged are chief victims of both aspects of stagflation. Inflation is in reality a means of redistributing income. Rising prices and rising costs are synonymous. Any price increase represents an increase in income to someone. Persons on fixed incomes and the unskilled and economically disadvantaged are the losers. They are also the big losers during a recession. The economically disadvantaged are the first to be disenfranchised during an economic downturn and the last to be called back. The economically disadvantaged are likely to receive little or no protection from unemployment compensation. Their lot becomes that of degradation on welfare or perhaps participation in the illicit labor market.

PSE is targeted almost exclusively to the economically disadvantaged. No other form of stimulus comes even close to PSE's current targeting. The National Academy of Sciences' study⁹ shows Title VI participants hired after January 1979 as 91 percent economically disadvantaged. In FY '80 Balance of State Wisconsin's Title VI PSE participants were over 97 percent economically disadvantaged.

Countercyclical economic policy requires a mix of interventions designed to address various objectives. Increased capital expenditure including tax cuts and accelerated public works can be utilized to address idle capacity, while in the short run unemployment can most effectively and least inflationary be attacked by public job programs. Maintenance of local government services can be assured by antirecessionary revenue sharing.

Those who argue for the exclusive use of one approach rather than another, for instance a tax cut, fail or refuse to recognize the scope of recessionary problems and antirecessionary objectives.

In making the argument for PSE, this paper does not include new empirical work. Rather it draws upon past analysis and studies.

In analyzing the impact of the various available stimulants, Temporary Measures to Stimulate Employment: An Evaluation of Some Alternatives, published September 2, 1975 by the Congressional Budget Office and Inflation and Unemployment: Surviving the 1980s, by Roger J. Vaughn as a part of the Council of State Planning Agencies Studies in State Development Policies are extensively utilized.

Before examining alternate fiscal policies to stimulate the economy a brief review of economic theory may prove helpful. This review will contrast classical versus Keynesian economics as it relates to economic downturns. Keynesian economics serves as the underpinning for fiscal intervention.

II. Non-Intervention versus Deficit Spending

Critics of PSE seem to fall into two basic camps: those who view the classical non-intervention attributed to Adam Smith as most appropriate and those who espouse the arguments of John Maynard Keynes but favor policies other than PSE such as tax cuts.

John Maynard Keynes first popularized during the depression of the 1930's the concept of fighting depression with Federal deficit spending. Simply stated the argument was roughly that government deficit spending would increase total spending and thereby prime the private pump. During a depression or a severe recession, consumers lack the money or credit to buy no matter how demand versus supply affects price. Federal government intervention is required since only it has the power to deficit spend and thereby provide the capital to restimulate economic growth. In its time this was a radical concept.

Through the decade of the 1920's classical economists held that the free-market economy would under normal conditions tend to self equalize at full employment. They held that the forces of supply and demand were sufficient for this purpose. If resources, including workers, were underutilized their market price would decline to the point where everything offered is hired or sold. Classical economists did realize that there could be temporary and even substantial deviations from equilibrium. These deviations would largely be resultant from external forces such as war or famine.

During the current recession, the seventh since World War II, there are those who argue for a return to a self-regulating economy, as espoused by the classical economists. Opponents of deficit spending largely rally around two objections, one based on an analogy to personal finance and the second around a desire to return to the economic concepts of Adam Smith and the self-equilizing free market economy. Most people in the general public probably believe a balanced budget is best even during a recession.

Objections to deficit spending on the theory that by and large the economic system will right itself and tend to full employment without intervention deny America's past at least since the 1930's. With few exceptions America has not had full employment other than in war years. America has had a number of periods of severe inflation, high unemployment and more recently stagflation. Stagflation simultaneous high unemployment and high inflation was previously thought to be impossible. The Phillips curve, which had been widely accepted, described the relation of unemployment and inflation as inverse and, thus, theoretically stagflation was impossible. Adherents of the Phillips curve are increasingly rare. Employment and training practitioners seldom argue any more about shifting the Phillips curve to the left.

Deficit spending, in effect borrowing by the federal government, is not analagous to personal borrowing. Unlike individuals the federal government can never go bankrupt. It has the power to tax or print money to meet its debt. Payment of interest and principal involves essentially a redistribution of income and assets within the economy so long as the debt is domestically held. This statement sounds like heresy, but it is not. It is not even a radical concept in terms of basic economics.

If America is to have a balance between inflation, growth, and employment it must use the macroeconomic tools available to it. Monetary and fiscal policy represent the tools available. Monetary policy largely lies in the hands of the Federal Reserve Board. It relates to the money supply. Monetary policy is outside the scope of this paper.

Fiscal policy includes the spending and taxing policies of the United States. Anti-recessionary fiscal responses constitute the next chapter. Subsections address tax cuts, public works and public service employment. A myriad of other fiscal responses are possible but are not currently under consideration.

III. Fiscal Policy

A. Tax Cuts

The single most politically popular approach to attacking the recession is a tax cut. It has immense appeal to tax payers. Both major party candidates endorse multi-million dollar tax cuts. It is not certain that taxpayers would continue to favor a tax cut if they realized it was the cause of an unbalanced budget.

Tax cuts have to be viewed as a Keynesian approach unless the cuts accompany a balanced budget. Under current circumstances, 7.5% national unemployment in September, a balanced budget is a pipe dream. Each percentage point of unemployment is estimated to cost the federal budget some \$25 billion in a combination of lost tax revenue and added unemployment benefits. A tax cut in the area of \$35 billion and a balanced budget are impossible under current conditions.

What are the advantages of a tax cut program in resolving the recession? To answer that question one must recognize that tax cuts can take two basic forms, personal and corporate. The new administration is proposing personal and corporate tax cuts. Most studies of the job impact of tax cuts indicate that personal tax cuts are more effective in job creation than are corporate cuts.

Tax cuts as a stimulant or recovery mechanism have several advantages:

1. They are POLITICALLY POPULAR.
2. Presumably, job placement and wage determination in the private sector are related to market factors. Workers are matched with jobs and compensated on the basis of supply and demand.
3. Some forms of tax cut, i.e. investment tax credits, will prompt employers to invest in new plants and equipment to stimulate long range growth in the GNP.

4. Investment tax credits reduce the private cost of capital and thus are not inflationary.
5. Once passage of a tax cut has occurred there is a short lag before personal/corporate disposable income is available. However, there may be additional lag in actual personal spending.

Certain disadvantages accrue to a tax cut approach:

1. Congressional passage is a time consuming process causing significant lags in implementation. The Congressional lag for tax cuts is greater than for public works or public service employment.
2. Personal income increase may not be immediately transferred to increased consumption. It may instead be used for savings or debt reduction.
3. Tax cuts in general do not produce a great employment impact. Personal tax cuts create more jobs than corporate, at least in the first 24 months. Investment tax credits may even result in increased capital intensity and decreased labor intensity. (See Appendices 1 and 2.)
4. The largest direct benefits will accrue to persons and corporations least needy. Poor people who pay no taxes will receive no benefit and only corporations making large capital investments will be able to maximize benefits from the credits.
5. Finally there is significant potential for substitution as firms which were in the process of capital acquisition in any case are awarded a credit in the form of a windfall. In fact recovery may be delayed as employers defer capital acquisition while awaiting a tax break. This has occurred in the past. Capital acquisition projections have continually been revised downward this year; perhaps resultant of tax cut debate, the recession, or both.

B. Accelerated Public Works

Federal funding of public works is another potential economic stimulant. The Administration had before the Congress a proposal to substantially increase the Economic Development Administration's FY 1980 program level of about \$600 million to \$1.7 billion in FY '81.

Funds would be targeted to especially distressed areas. Expanded funding of an additional \$1 billion will be requested for FY '82. These funds will be used for economic and industrial development. Congress will be expected to reconsider the Administration's proposal after the election recess.

Experience has shown that an accelerated public works program has a number of positive attributes:

1. It can be targeted to geographic areas most hard hit by the recession. Recessionary impacts are not felt equally by all states or regions. States like Montana and Wyoming enjoy virtually full employment while a state like Michigan has very high unemployment.
2. Most projects are contracted to the private sector. This has public appeal because it is linked to market forces.
3. The construction industry is typically hard hit by recession, thus the stimulant would be well targeted occupationally. During the current recession the construction industry is very hard hit.
4. Construction projects have a high multiplier effect since they increase demand for the products of construction supply industries. Thus this form of antirecessionary program has a higher employment impact than tax cuts. This is so especially if both direct and secondary employment impacts are considered. (See Appendices 1 and 2)

Certain problems accompany the use of public works:

1. Inside and outside government start up time is great. Public works funding from introduction to passage is a long process. For instance, the current Economic Development Administration (EDA) reauthorization bill for FY 1981 was deadlocked for seven months because of House and Senate differences over a controversial local public works program. It was finally funded under the continuing resolution that covered most of the federal government.
2. The employment impact of public works, while greater than that of tax cuts, tends to be low when compared further with public service employment.

3. The inflationary impact of public works is mixed and dependent upon market forces. If, as is frequently the case, startup lags mean the projects begin after the economic recovery the program can be very inflationary. Additionally the Davis Bacon Act prevents the law of supply and demand from depressing wages of construction workers.
4. Targeting to laid off workers most in need does not occur. Public Work projects generally hire highly skilled workers.
5. As with investment tax credits, substitution is a potential problem. Local officials have in the past deferred their own construction projects as they awaited the protracted deliberations of Congress in the hope that federal funds would pay some or all the cost of their public works project.

Tax cuts as a part of an economic recovery program is supported by the new administration. As such it needs little further justification. Public works deserves inclusion as it plays a role in targeting resources directly to a sector with a large idle capacity. Public service employment on the other hand is excluded from the nation's recovery policies. Since this study is intended as a defense of PSE the pluses and minuses are more fully stated than for tax cuts or public works.

C. Public Service Employment

In spite of its current lowly posture, public jobs have a number of unique advantages in a recovery package. Appendix 3 reviews the advantages of public service employment. On the basis of the six factors that the Congressional Budget Office (CBO) considered key: employment impact, startup time, phaseout flexibility, inflation impact, value of output, and targetability; PSE got high points in all areas except value of output.

1. The Employment impact of public employment is relatively high. According to the 1975 CBO study¹⁰ more jobs are created per \$1 billion dollars of public service expenditure than for either tax cuts or public works. Vaughn's study¹¹ largely confirms the CBO study. The impact is also greater than other potential stimulants not discussed here; for instance, increased government purchases or antirecession aide to state and local governments. The high employment impact is in stark contrast to accusations that PSE is "horribly inefficient" and "a very clumsy way to distribute income." It is questionable that these critics would favor any form of income transfer to the

poor for instance a guaranteed annual income. See Appendices 1 and 2 for impact estimates for from 6 months to two years after initiation.

2. Public service employment is readily targeted. It currently directs funds to areas on the basis of the intensity of the unemployment problem. It is also directed to the long term unemployed, low income worker. These individuals include the old, young, minority, and handicapped workers. Persons who fall within these groups are most likely to be first fired and last hired back. Unemployment compensation (UC) is one of the earliest deterrents to economic hardship for laid off workers. However, CETA eligible individuals are likely to either not be UC eligible or to exhaust benefits before the recovery is sufficient to create enough jobs. Geographic targeting can be further refined by selecting allocation factors representative of Congress' priority. Participant targeting could also be intensified.
3. Once the lag time it takes to identify the recession has elapsed and the Congressional process has been completed, start up time is relatively short if an existing mechanism such as the CETA prime sponsor network is utilized. In eight months PSE enrollments were more than doubled from 350,000 to 750,000 during the Carter Economic Stimulus Program. Vaughn¹¹ sees the possibility of 250,000 enrollments in one month. In the past, lag in passage by the Congress has been shorter for PSE than for public works or tax cuts. Vaughn¹³ reports lags for Congressional final enactment of from six and fourteen months for public works and four to eight months for PSE. (See Appendices 3 and 4.) Tax cut passage is yet more time consuming.
4. The inflationary impact of PSE is according to the 1975 Congressional Budget Office¹⁴ less than other fiscal policies. Relatively low inflation results from low wages and targeting to low income workers. Net budget costs would be lowest for PSE among alternative programs if considered at the six month or 12 month period. Much of this advantage is lost after 24 months; however the average length of the six recessions since World War II is only eleven months. The longest recession since WW II was the '73-75 recession at 16 months.

PSE is not without its drawbacks as a response mechanism. Some drawbacks are real while others are more a matter of perspective.

1. Perhaps PSE's greatest single drawback is its lack of popular political appeal. This lack of appeal relates at least in part to the fact that one of the things that PSE does is transfer funds to the poor. PSE is also a victim of the current fad answers to existing problems:

- a. Balance the budget, reduce expenditures, and reduce the size and role of government.
- b. The private sector is the answer.

In addition to its other attributes PSE serves as an income redistribution mechanism. Unlike tax cuts which may give the most relief to those that need it the least, PSE wages go to the poor. This is not popular with business which would far prefer to benefit directly, for instance, from investment tax credits. It is not popular with middle income taxpayers, who hard pressed by inflation see their standard of living erode. Clearly the rich, middle income, and most anyone fortunate enough to be working prefer personal tax cuts to what they perceive as additional "welfare" for the poor.

The value of output of public service employment is doubted by many. PSE jobs are viewed as "make work" and "leaf raking". This is an invective that has followed public jobs programs since the '30s. This in spite of the fact that the GAO,¹⁵ not known to give praise lightly, found that both participants and local units of government were satisfied with the work performed. The National Research Council (NRC)¹⁶ reported 95 percent of local government respondings saw Title VI project activities as "very useful". A subsequent report of the NRC¹⁷ reported some erosion but a large majority of local government continued to view the services as very useful.

Not that negative publicity was required to perpetuate the myth, but articles by widely read publications such as the "Reader's Digest", hardly a professional journal, really do harm when they belittle CETA on the basis of a handful of jobs out of hundreds of thousands. This harm is not lessened by the fact that among the jobs criticized are those whose only failing is that they do not appeal to the editor or author, for instance, positions in the arts. No note is made of the positions that reduce crime, provide fire protection, save energy, provide meals to the elderly, educate the children, etc.

2. PSE is viewed as a "quick fix". While this is actually the beauty of the program, PSE's critics take great pleasure in using it as a profanity. Programs which pick up idle capacity and offer the hope of increased productivity and resultant GNP growth are not "quick". Nor, in the short run, do they provide jobs for the young, unskilled, or new entrants to the labor force. PSE is quick and it is targeted.

Tax cuts and public works definitely have their place in a recovery policy package but singly or together they do not represent an alternative to PSE's "quick fix".

3. Lag time with PSE has varied from between four and eight months from policy initiation by the Congress to passage. Total lapse time from initiation of policy to the point where half the jobs have been created has been 22 months.

While this lag is far too great, it is less than that of other fiscal initiatives. As Appendix 4 shows, public works programs takes between 30 and 41 months from policy initiation until half the jobs are created.

Lag time was totally avoidable during the current recession since the anti-recession PSE program is already in place. Prior to the end of April 196,000 participants were enrolled in Title VI programs. Instead of simply extending these positions for the recession's duration, Title VI is being phased down or out.

CETA-PSE has been referred to as procyclical because economic recovery may be underway as the program reaches top enrollments. While other programs are not labeled procyclical they face even greater delays in start up and are also more inflationary and procyclical.

The average duration of the six previous post World War II recessions has been eleven months with the '73-75 recession, the most severe, extending to sixteen months. Unemployment lags GNP in recovery. A non-inflationary stimulant to direct employment especially for those hit first and hardest by a recession, the CETA eligibles, is appropriate for at least as much as 24 months after the recession has begun. Thus lag time is not a devastating problem for PSE especially during the 1980 recession where high unemployment rates are expected to linger long after the recession is over.

Lag time could be greatly reduced by the use of automatic triggers. The current Title VI trigger is not automatic. The trigger could, for instance, kick in and out at 6% unemployment nationally or regionally. This rate is above full employment

and below the average rate of peak unemployment for recent recessions. The natural unemployment rate has risen since the 6.1% rates found in the '53-54 and '69-70 recessions.

4. CETA and especially PSE under CETA is popularly seen as fraught with fraud and abuse. There exists wide media coverage on instances of real or perceived CETA abuses.

While fraud and abuse instances do exist they are widely exaggerated. "The Wall Street Journal"¹⁸ printed the finding that since 1974 only 0.06% of all CETA funds audited were disallowed. This is an enviable rate.

Balance of State Wisconsin, a fairly typical prime sponsor, has not ever had a proven case of fraud. This in spite of the fact that the annual BOS budget has been as large as \$50 million.

5. Substitution of federal funds for local is the criticism of PSE most frequently used by Economists and Politicians. What is feared is that the displacement effect will mean less total jobs in the economy. This is overly simplistic as the following excerpt from a Brookings' study¹⁹ illustrates.

"Displacement may reduce the amount of job creation, but whether or not there is a fiscal stimulus depends upon how the jurisdiction uses the funds released through displacement. If the released funds are used to expand services elsewhere in the government, the fiscal effect would still be one of expenditures in the public sector, even if there is less direct job creation than desired. Alternatively, if the released funds are used to reduce or stabilize taxes, there would still be a stimulus effect, but its initial impact would be in the private sector; the nature and magnitude of the effect would be similar to that of a federal tax cut."

The Brookings' study measured the expenditure effect of CETA PSE. It was found that 94 percent of the expenditure was involved in job creation impact: 86 percent in expenditure effects and 8 percent in tax effects. The expenditure effect is the same as direct job creation while the tax effect is the same as would exist with a personal tax cut. Only six percent of the expenditure was non-productive as a stimulant. This information is summarized in the following table:

Percentage Distribution of Expenditure Effects

Effect	Percentage of funds
Expenditure effects	86
Job creation	75
Administration	10
Expenditure effects of displacement	1
Tax effects	8
Tax reduction	*
Tax stabilization	8
Increased fund balances	4
Unallocated	2
Total	100
Number of governments	38

Source: Brookings field data.

*Less than 0.5 percent; actually 0.4 percent in this tabulation.

It is also interesting to note that the Brookings study²⁰ found substitution to be only 15 percent. Previous studies have estimated substitution as high as 100 percent within a range starting at 15 percent.

Substitution rates are almost always calculated using econometric models, not direct observation. As such they are subject to endless debate on the assumptions used. The Brookings study, however, involves direct observation and is therefore the most reliable means of measuring displacement. Suffice to say that while substitution is a problem in PSE it is not so severe a problem as critics allege. Additionally, as shown in section A Tax Cuts and B Public Works, these areas also suffer a displacement effect. Estimates of this effect are lacking in the literature.

IV. Conclusion - Need for a Policy Package

America's economy is not self equalizing. Prior to the 1930s this would have been a radical statement. Today it is a widely accepted truism. The underpinning for this statement includes not only the Great Depression, but also the current recession and six post World War II recessions that preceding 1980. In terms of five key measures the most recent recession, November, 1973 to March, 1975 was the most severe since the Great Depression:

1973-1975 Recession

Duration - 11 months

Decline in Output - 5.7%

Unemployment Rate Peak - 9.0%

Drop in Industrial Production - 15.3%

Fall in Personal Income - 2.3%

This is not to say that supporters of laissez faire do not exist. In fact there is an increasing belief in the general populace that government creates, not cures, economic problems. Also the general public holds the balanced federal budget in almost sacred awe.

If in fact the economy is no longer able to stabilize itself, what is the proper government policy for recovery? Two major tools are available, monetary and fiscal policy. This study restricts itself to fiscal responses.

An array of fiscal policies are available but the two most commonly supported are tax cuts and public works. Both of these policy approaches have their place in a recovery package but leave unaddressed the area of short run response to high unemployment among the disadvantaged.

THE OMISSION OF PSE FROM CURRENT POLICY IS MOST UNFORTUNATE! It means that the economically disadvantaged will lack any short run protection from the ravages of the two headed dragon of market economics, inflation and recession. Public Service Employment has proven to be the quickest response to a recession among programs lacking automatic triggers. It would need no lag under current conditions if simply extended at existing levels. If larger buildups are required an increase of 250,000 a month is not beyond the realm of possibility.

PSE is the most cost effective fiscal remedy if measured in terms of jobs created in the first twelve months. This effectiveness is greatly enhanced if participants are drawn heavily from income maintenance programs such as AFDC and unemployment compensation. Balance of State Wisconsin has during FY '80 served over 30% public assistance recipients and 12% unemployment compensation recipients under Title VI of CETA. The GAO²¹ found rates of 32% UC and AFDC alone. If other Public Assistance recipients were included the rate would have been about 40%. Roughly a year later the National Academy of Sciences²² found 35% of all participants were on AFDC or unemployment compensation prior to enrollment through FY '78.

Additional attributes of PSE which make it an ideal component of a recovery program are its low inflationary impact and ability to be targeted geographically, by target group, and by occupation.

Single policy solutions to a recession are inefficient. Many problems are attendant to a recession. Therefore, any anti-recession policy must include multifaced objectives to address multiple problems. An attempt to address too many objectives within one fiscal response is likely to cause distortions and inefficiencies. For example, if too much reliance is placed on public service employment, to the exclusion of anti-recessionary revenue sharing, local governments may simply substitute PSE funds for local in order to avoid laying off regular employees.

It is clear that what is needed is a policy mix of fiscal responses. PSE should be a key ingredient in any such policy! Most Americans suffer from the impact of inflation and millions suffer from a recession. However, failure to include PSE means in a policy mix means grave hardship to those who in good times and bad suffer most from lack of gainful employment. The economically disadvantaged bear the brunt of the recession.

NOTES

1. "Time", August 11, 1980, p. 48.
2. Editorial, "Business Week", September 8, 1980, p. 122.
3. "Business Week", September 8, 1980.
4. Ibid.
5. Bill Weikirk and R.C. Longworth, "Chicago Tribune", September 17, 1980.
6. "Employment and Training Register", Volume 12, Number 2, September 17, 1980.
7. "Business Week", September 8, 1980
8. Ibid.
9. William Mirengoff and others, National Academy of Sciences, The New CETA: Effect on Public Service Employment Programs, A Preliminary Report, September, 1979.
10. Congress of the United States, Congressional Budget Office, Temporary Measures to Stimulate Employment: An Evaluation of Some Alternatives, September 2, 1975
11. Roger J. Vaughn, Studies in State Development Policy, Inflation and Unemployment: Surviving the 1980s, The Council of State Planning Agencies, 1979.
12. Ibid.
13. Ibid.
14. CBO, op. cit.
15. Comptroller General, Report to the Congress, More Benefits to Jobless can be Attained in Public Service Employment, April 7, 1977.
16. William Mirengoff and others, National Academy of Sciences, CETA: Assessment of Public Service Employment Programs, 1979.
17. Mirengoff, September 1979, op. cit.
18. "The Wall Street Journal", August 26, 1980.
19. Richard P. Nathan and others, Brookings Institute, Monitoring the Public Service Employment Program: The Second Round, A Special Report of the National Commission for Manpower Policy, Special Report No. 32, p. 47, March, 1979.
20. Ibid.
21. Comptroller General, Report to the Congress, Information on the Buildup of Public Service Jobs, March 6, 1978.
22. Congress of the United States, Congressional Budget Office, Temporary Measures to Stimulate Employment: An Evaluation of Some Alternatives, September 2, 1975

APPENDIX 1: Estimates of Employment and Budget Impact of Various Programs Costing \$1 Billion¹

Type of Program	Initial Impact			12 Months			24 Months		
	Increase in Jobs (thousands)	Reduction in unemployment rate	Net Budget Cost (millions)	Increase in jobs (thousands)	Reduction in unemployment rate	Net Budget Cost (millions)	Increase in jobs (thousands)	Reduction in unemployment rate	Net Budget Cost (millions)
Public Service Employment	80-125	0.07-0.11	\$754-\$615	90-145	0.08-0.13	\$492-\$425	90-150	0.08-0.13	\$723-\$530
Anti-recession aid to State and local government	40-77	.04-.07	\$850-\$716	70-07	.07-.00	\$590-\$570	72-100	.07-.09	\$480-\$450
Accelerated public works	16-46	.02-.04	\$915-\$793	56-70	.06-.07	\$537-\$510	64-80	.07-.08	\$430-\$390
Tax Cut ²	8-15	.01-.02	\$980-\$960	26-35	.02-.03	\$740-\$720	30-40	.02-.03	\$663-\$637
Government purchases	20-50	.02-.04	\$948-\$870	40-70	.03-.05	\$600-\$590	60-80	.04-.05	\$475-\$425

¹These estimates assume no monetary accommodation. If the money supply were increased to prevent interest rates from rising as a result of the expansionary fiscal measure, the job-creating effect would be higher and the net deficit cost lower. Accommodating monetary policy would increase the expansionary effect by 25% or more which, in turn, would reduce the budget cost by an average of about \$125 million.

²The income tax cut is assumed to be one-third corporate and two thirds personal. If the tax cut were entirely personal, the expansionary effect would be about 50 percent greater and the net budget cost about \$175 million lower.

Source: Congressional Budget Office, Temporary Measure to Stimulate Employment: An Evaluation of Some Alternatives September 2, 1975.

APPENDIX 2
ALTERNATIVE ESTIMATES OF TOTAL EMPLOYMENT GENERATED
BY SELECTED COUNTERCYCLICAL PROGRAMS
(in man-years)

Public Works Corps of Engineers Type of Program	Source	Increase in Jobs per \$1 Billion		
		Initial Effect	12 Months	24 Months
Public Works Corps of Engineers Highway	Bezdek and Hannon (1974)	NA	NA	65,000
Railroad & mass transit				81,000
Educational facilities				84,000
Water and waste treatment				85,000
Sewer plant	Vernex et al., (1977)		90,600	108,000
Flood protection			127,000	183,000
Federal office building			42,300	131,000
Accelerated public works ^a	CBO (1975)	16-46,000	56,70,000	64-80,000
Public Service Employment ^b	CBO (1975)	80-125,000	90-145,000	90,150,000
	Johnson and Tomola (1975)	17-111,000	31-126,000	77-162,000
Government Purchases	CBO (1975)	20-50,000	40-70,000	60-80,000
	Johnson and Tomola (1975)	6,000	54,000	99,000
Tax Cut	Bezdek and Hannon (1974)	NA	NA	87,000
	CBO (1975)	12-22,000	39-52,000	45-60,000
	Johnson and Tomola (1975)	200	15,000	51,000
Revenue-sharing to state and local governments	CBO (1975)	40-77,000	70-97,000	72-100,000

NOTE: NA means not available

^aThe range shown reflects alternative assumptions on the mix of public works projects that might be implemented.

^bThe range shown reflects alternative assumptions on displacement of state and local funds by federal funds. The higher figure reflects no displacement while the lower figures reflect moderate displacement (CBO) or large displacement (Johnson & Tomola).

SOURCE: Roger J. Vaughn, *Inflation and Unemployment: Surviving the 1980's*, The Council of State Planning Agencies, 1979.

APPENDIX 3: Summary of the Potential Impacts of Alternative Measures to Stimulate Employment

	Employment Impact per \$ expenditure	Startup Time	Phaseout Flexibility	Inflation Impact	Value of Output	Targetability
Income Tax Cut	Relatively low, particularly in the short run.	Subject to lags in individuals' spending.	Potentially easy to terminate	Same as any aggregate fiscal measure	Entirely Private Sector	None
Increase in Government Purchases.	Higher than tax cut; lower than special employ- ment programs.	Potentially fast; subject to policy initiation lag.	May be hard to terminate, especially if useful output, services in- volved.	Same as any aggregate fis- cal measure, depending on employees' skill mix.	Mostly pub- lic sector; second round effects on private sec- tor.	Low.
Accelerated Public Works.	Potentially low if wages are high; greater job impact from low wage pro- jects.	Potentially long; but with wide variations depend- ing on type of program.	Wide varia- tion: appropri- ations eas- ier to stop than some other Govern- ment programs, but large scale projects may take long go complete.	Somewhat great- er than other programs if workers highly skilled; lower if aimed at less skilled workers.	Mostly public sector; sec- ond round effects on private sec- tor.	Can be directed at high employ- ment areas, construction trades.
Public Service Employment	Relatively high if wages are low.	Potentially fast if existing pro- grams expanded.	Relatively flexible if job tenure limited.	Low if aimed at unskilled workers and if wages are lower than private sec- tor alterna- tives.	Low if empha- sis is solely on job impact; if combined with train- ing can pro- duce useful skills.	Can be directed at most needy individuals.
Anti- recession aid to State and Local Governments	Less than PSE if skill levels high; more than other Government pur- chases, public works.	Potentially fast; no new programs, only transfer of funds.	Potentially easy to terminate.	Moderate, de- pending on skill level of employees.	State and lo- cal govern- ment services.	Can be directed at Governments hit by recession.

APPENDIX 4

LAG IN JOB CREATION FROM DATE OF RECESSIONARY DOWNTURN (in months)

LAG IN	Public Works			Public Service Employment	
	Accelerated Public Works 1962	Public Works Impact Program 1971	Local Public Works-1 1976	Emergency Employment 1 Act 11971	Comprehensive Employment and Training Act, 1973
					Title II 1973 Title VI 1974
Initiation of policy action (a)	22	8	19	17	- 11
Legislative action (b)	6	6	14	16	8 4
SUBTOTAL	28	14	33	13	- 15
Federal Administrative action (c)	1	1	5	11	5 1
Outlays until half the jobs have been created (d)	12	12	12	16	8 6
TOTAL	41	30	50	22	- 22

NOTES: Dashes mean not applicable. CETA II was part of the "Comprehensive Employment and Training Act of 1973" designed to consolidate and decentralize all previous manpower programs. It was not originally intended as a countercyclical program, and was signed into legislation one month after the November 1973 recessionary downturn.

- (a) Time lag between date of recessionary downturn - as dated by the National Bureau of Economic Research (NBER) and the program was first introduced in Congress in the form of legislation.
- (b) Time lag between introduction of initial legislation and presidential signing of passed legislation.
- (c) Time lag between the presidential signing of passed legislation and the allocation of funds to state and local governments.
- (d) Time lag between allocations of funds to state and local governments and half the number of direct jobs created. For public works, it includes any lag occurring between project selection and start of construction.

SOURCE: George Vernez and Roger Vaughan. Assessment of Countercyclical Public Works and Public Service Employment Programs, R-2214-EDA. The Rand Corporation, September 1978, p. 49. Reprinted in Inflation and Unemployment: Surviving the 1980's.